No. 99-573

IN THE

Supreme Court of the United States

SEAGATE TECHNOLOGY, INC.,

Petitioner,

v.

RODIME PLC,

Respondent.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

REPLY BRIEF OF PETITIONER

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REPLY BRIEF OF PETITIONER

In its opening brief, petitioner raised two important legal issues for review by this Court. The first is whether the Federal Circuit should review without deference a district court's factual findings on matters extrinsic to the patent documents that are foundational to the district court's legal interpretation of a patent claim. This question was not resolved by this Court's decision in *Markman v. Westview Instruments, Inc.*, 517 U.S. 370 (1996), which held only that claim construction is an issue for the judge. *See* Pet. at 14, 18-24. The second issue is whether state law may impose liability for acts allegedly intended to induce infringement of a patent where federal patent law would not impose such liability. Rodime's opposition to the petition offers nothing to refute the need for review by this Court on these questions.

I. THE QUESTION WHETHER DEFERENCE IS OWED TO A TRIAL COURT'S FACTUAL DETERMINATIONS UNDERLYING ITS PATENT CONSTRUCTION IS PROPERLY PRESENTED AND WARRANTS REVIEW.

1 Rodime's principal argument for denying review of the question whether the Federal Circuit should defer to district court factual determinations made in the course of claim construction is that this question was not "pressed or passed upon below," and that Seagate conceded the issue by urging "the court to apply a *de novo* standard of review." Opp. at 9-10. These contentions are meritless.

First, no concession occurred. It is settled within the Federal Circuit that a trial court's interpretation of a patent claim is reviewed *de novo*. *Markman v. Westview Instruments, Inc.*, 52 F.3d 967, 979 (Fed. Cir. 1995), *aff'd*, 517 U.S. 370 (1996). By citing *Markman* as the relevant standard for claim construction, Petitioner did not concede that factual determinations based upon evidence extrinsic to the patent documents (the patent and its file history), that are foundational to a court's legal interpretation of the scope of a patent claim, are to be reviewed without deference.

Second, the standard of review issue did not ripen into an appealable issue until the Federal Circuit had ruled in this case. The court of appeals panel raised an issue *sua sponte* that Rodime had conceded below, and, in doing so, the panel wholly ignored the trial court's findings concerning what one of ordinary skill in the art of hard disk drive computer storage devices would understand the phrase "positioning means for moving" to mean.

When that ruling was issued, Petitioner specifically challenged the panel's failure to give deference to the factual determinations of the trial court based upon expert testimony received during the *Markman* hearing in its Petition for Rehearing and Suggestion For Rehearing *En Banc* ("Pet. For Reh'g"):

> Under the banner of *de novo* review, the Court has overturned the careful analyses and evaluations by Special Master Ward, Court Appointed experts Profs. Janicke and Bogy, and District Judges Gadbois and Letts, as well as a concession by Rodime, relying instead upon a record, briefing and argument not intended to address the threshold § 112 ¶ 6 issue. . . .
>
> . . . .
>
> This is exactly the situation recognized by many of the members of this Court in the various concurrences in *Cybor . . . as one where deference should be given to the proceedings below because of the technical nature of the issue and the substantial time devoted to it below.*

Pet. for Reh'g at 5-6 (emphasis added).

Seagate's express challenge to the panel's nondeference approach in the Petition For Rehearing and Suggestion For Rehearing *En Banc* adequately preserves the issue for review by this Court. *See Richards v. Jefferson County*, 517 U.S. 793, 797 n.3 (1996) ("Because petitioners raised their due process challenge to the application of res judicata in their *application for rehearing* to the Alabama Supreme Court, that federal issue has been preserved for our review.") (emphasis added); *City of Houston v. Hill*, 482 U.S. 451, 467 n.16 (1987) (city's failure to raise abstention issue until after it had lost on the merits before the court of appeals did not bar Supreme Court from considering the issue).

Finally, review by this Court is not precluded even if Seagate could have raised the issue before the panel and did not do so prior to the *en banc* petition. The question presented falls well within the category of "exceptional cases" in which the Court declines to "limit [its] power to decide important questions not raised by the parties . . . particularly in cases arising in the federal courts." *Blonder-Tongue Labs., Inc. v. University of Ill. Found.*, 402 U.S. 313, 320 n.6

(1971). Indeed, in numerous instances, this Court has considered issues not squarely presented in the courts below. For instance, in *Carlson v. Green*, 446 U.S. 14 (1980), the Court decided a question presented in a petition for certiorari that had not been raised in the lower courts where, as here, the issue was squarely presented in the petition, was important and recurring, and "the interests of judicial administration will be served by addressing the issue on its merits." *Id.* at 17 n.2. *See also Vance v. Terrazas*, 444 U.S. 252, 259 n.5 (1980) ("consideration of issues not present in the jurisdictional statement or petition for certiorari and not presented in the Court of Appeals is not beyond our power, and in appropriate circumstances we have addressed them") (citing cases); *Capital Cities Cable, Inc. v. Crisp*, 467 U.S. 691, 696 (1984) ("Although we do not ordinarily consider questions not specifically passed upon by the lower court . . . this rule is not inflexible, particularly in cases coming, as this one does, from the federal courts."); *Virginia Bankshares, Inc. v. Sandberg*, 501 U.S. 1083, 1098 (1991) (Court will consider issue not raised by the parties below); *Lebron v. National R.R. Passenger Corp.*, 513 U.S. 374, 379 (1995) (same).

In *Standard Industries v. Tigrett Industries, Inc.*, 397 U.S. 586 (1970) (per curiam), Justice Black's dissent noted the three factors the Court historically has considered in deciding whether to review arguments not presented below: "first, whether there has been a material change in the law; second, whether assertion of the issue earlier would have been futile; and third, whether an important public interest is served by allowing consideration of the issue." *Id.* at 588 (Black, J., dissenting) (citing cases). Those elements are clearly satisfied here.

During the appellate panel's review of Rodime's appeal, the *en banc* Federal Circuit decided *Cybor Corp. v. FAS Technologies, Inc.*, 138 F.3d 1448 (Fed. Cir. 1998). *Cybor* conclusively resolved a debate within the Circuit in conflicting panel opinions, holding that henceforth, "we review claim construction *de novo* on appeal *including any allegedly*

fact-based questions relating to claim construction." *Id.* at 1456 (emphasis added). "Accordingly," the *en banc* court continued, "we today disavow any language in previous opinions of this court that holds, purports to hold, states, or suggests anything to the contrary . . ." *Id.*

The language of *Cybor* was definitive in prescribing the legal standard the Federal Circuit would apply to factual conclusions underlying a district court's patent claim construction and clearly constitutes a material change in the law. In light of that *en banc* decision, it would have been futile for Seagate to have asked the appellate panel to overrule this precedent. Once the *en banc* court has ruled, that opinion has binding, authoritative force unless and until this Court rules otherwise. *See Texas Instruments v. Cypress Semiconductor Corp.*, 90 F.3d 1558, 1567 (Fed. Cir. 1996).

Review of the mandatory non-deference rule announced in *Cybor* and applied here also is clearly in the public interest. Because the Federal Circuit hears all patent appeals, the question presented will be a recurring one that will affect the rights of all trial litigants.

In addition, the traditional rationales for declining review are not implicated here; this is *not* a situation in which the Court is deprived of the benefit of the lower court's opinion on the issue. The appellate panel explicitly stated that it would give no deference to the district court's factual findings, *see* Pet. App. at 11a, and, in light of *Cybor*, there was nothing more the panel could have said that would inform the Court's deliberations as to whether *Cybor* is a correct statement of the law. *See Lebron*, 513 U.S. at 379 ("Our practice 'permit[s] review of an issue not pressed so long as it has been passed upon . . . .'"); *Virginia Bankshares*, 501 U.S. at 1098 n.8 ("It suffices for our purpose that the court below passed on the issue presented . . . particularly where the issue is . . . one of importance to the administration of federal law.") (citations omitted).

2. Rodime's second argument for denial of certiorari is nothing more than an argument on the merits that the court of appeals panel, applying nondeferential review of the district court's factual findings, arrived at the correct interpretation of Rodime's patent claim. This contention entirely misses the point. At issue is whether the factual findings underlying the district court's interpretation are entitled to deference, not whether the appellate panel, applying a nondeferential review standard, happened to arrive at the "correct" interpretation of the patent claim.

In any event, Rodime wrongly asserts that the Federal Circuit's ruling was correct. Rodime contends that the panel correctly rejected the district court's claim interpretation because the trial court "violated the [legal] rule against importing the functions of a working commercial device into the claims, thereby reading 'unnecessary functional limitations into the claim.'" Opp. at 11 (quoting Pet. App. at 14a). But the trial court did *not* import the functions of a working commercial device into the claims; it construed the claim language "positioning means for moving" to mean *means for moving into position* rather than simply "means for moving" between tracks as construed *de novo* by the Federal Circuit.[1] The Federal Circuit's construction completely reads out of existence the word "positioning" in its claim construction. That construction thus ignored what one of ordinary skill in the art would understand that claim language to have meant, which the trial court realized after conducting a factual review. Ironically, the appellate panel likely would not have

[1] For instance, Judge Letts' *Markman* determination made clear that he was interpreting the "moving" language "in the context of the disputed claims," Pet. App. at 33a-34a, and in the context of what "is required of a *computer disk drive system*," *id.* at 33a (emphasis added). The words "computer disk drive system" come from the preamble of the claims, *e.g.*, "3. A computer disk drive system. . . ." Thus, Judge Letts did not reach out to commercial devices.

made the error it did had it given deference to the trial court's factual determinations.

3. Rodime further attempts to obscure the importance of the legal question raised in Seagate's petition by arguing that the district court did not actually make any "factual findings" at all.[2] Rodime ignores the fundamental disagreements between the experts — which were resolved by the trial court — over the meaning of terms in the claim to one skilled in the art.[3] In any case, Rodime's opposition brief admits that the trial court relied on extrinsic evidence in the form of expert testimony. Opp. at 12-13.

4. Finally, Rodime spends considerable time rehashing the merits of the question presented, but its argument amounts to nothing more than the repeated assertion that *all* aspects of claim interpretation should be reviewed *de novo* under *Markman*. *See* Opp. at 14-17. However, as explained in the Petition, simply because *Markman* held that claim construction is an issue for the judge does not mean that the factual determinations underpinning that judge's ultimate legal construction of a claim must necessarily be subjected to *de novo* review as well. Numerous examples are cited in the Petition of questions of law that receive deferential appellate review of underlying factual determinations, *see* Pet. at 23-24, and Rodime offers no response to these examples.

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[2] The lack of formal "findings of fact" at the trial court level merely reflects the custom and practice of trial courts, when conducting *Markman* hearings, not to prepare formal "findings of fact and conclusions of law;" it does not in any way support Rodime's contentions that no factual determinations were made by the trial court concerning what one of ordinary skill in the art would know and understand technical terms to mean.

[3] *Compare* Appeal J.A. at A3971-72, A3984-85, A3998-99, A4011-12 (Dr. Kline expressing disagreement with Dr. Bogy's positions regarding the meaning of "moving") *with* Pet. App. at 33a-34a (Judge Letts adopting Dr. Bogy's interpretation).

There is yet another, closer example in this context: even though a claim of inequitable conduct before the Patent and Trademark Office is a matter for the court and not a jury to resolve, factual determinations underlying a judicial finding of inequitable conduct – the existence of misrepresentation, materiality and intent to deceive, for instance -- receive deferential appellate review under Fed. R. Civ. P. 52(a), which mandates that the trial court's findings "shall not be set aside unless clearly erroneous." *See, e.g., Molins PLC v. Textron, Inc.*, 48 F.3d 1172, 1178 (Fed. Cir. 1995); *Kingsdown Medical Consultants, Ltd. v. Hollister, Inc.*, 863 F.2d 867, 872 (Fed. Cir. 1988).

Even the case on which Rodime principally relies – *Markman* – provides no support for Rodime's contention that all aspects of claim interpretation should necessarily be reviewed *de novo*. In *Markman*, the Court recognized that where there are disputes among experts relevant to patent claim construction, trial courts are well-equipped to resolve those disputes so as to "preserve the patent's internal coherence." 517 U.S. at 389. As in other areas of the law, those factual determinations should be granted deference.

II. THE DECISION BELOW VIOLATES SETTLED PATENT PREEMPTION PRINCIPLES.

The second question presented does not simply seek to correct a "mere error" on the part of the Federal Circuit in "applying indisputable preemption principles to the specific facts of this case." Opp. at 18-19. Rather, Seagate asks this Court to determine whether the two-part preemption test first established in *Dow Chemical Co. v. Exxon Corp.*, 139 F.3d 1470, 1473-76 (Fed. Cir. 1998), *cert. denied*, 119 S. Ct. 1026 (1999), and applied in this case, impermissibly threatens the patent policies embodied in federal law. Since the Federal Circuit no longer applies regional circuit law to patent preemption decisions and is now the exclusive arbiter of patent preemption issues, *see* Pet. at 17 n.11, review of its ruling permitting states to regulate and punish conduct that is not

only allowed, but even encouraged by the federal patent laws, is particularly warranted.

1. Rodime first asserts that the preemption problem identified in the Petition is not at issue because "the [Rodime patent] claims in issue have never been found invalid." Opp. at 18. That assertion is wrong. Rodime's state law claims are based on Seagate's alleged efforts to induce others not to license Rodime's patents, where the majority of the claims have been ruled invalid by the Federal Circuit in the *Quantum* litigation. *See* Pet. at 4-5, 11. Yet, the Federal Circuit in this case, applying the two-part *Dow Chemical* test, wholly failed to address the legal consequences of that prior invalidity ruling on Rodime's state law tort theories. By ignoring the fact that the majority of the patent claims had been declared invalid, the Federal Circuit allowed Rodime to seek recovery of damages under a state law tort theory for conduct protected – indeed even encouraged – by the federal patent laws – namely, resisting "would-be monopolists" who assert invalid patent claims. Pet. at 24-25 (quoting cases).

2. Even if Rodime's tort claims were limited to Seagate's alleged efforts to induce others not to license (and thereby to induce them to infringe) *valid* patent claims, that does not save them from preemption under this Court's precedents. The state-law torts, for example, would authorize punitive damages, which are prohibited in the "careful balance" of the federal patent scheme. Pet. at 26 n.20. As explained in the Petition, "in defining the scope of liability for . . . inducement to infringe under 35 U.S.C. § 271, Congress has defined the risk an alleged infringer will bear for challenging patents believed to be invalid." Pet. at 25. Authorizing greater recovery under the state-law torts for conduct already prohibited under the federal patent laws would clearly upset that balance.

3. Finally, Rodime relies on analogies to cases enforcing patent licenses (contractual relations between private parties) to justify the intrusion of state law into this area. Opp.

at 21-22. Rodime provides a litany of citations for the undisputed proposition that a patent licensee, once a patent is determined to be invalid, is not legally entitled to disgorgement of licensee royalties paid prior to the validity challenge. Opp. at 22 n.10. From that unexceptional rule of law, Rodime concludes that it should be entitled to recover damages from Seagate for its alleged interference with Rodime's licensing of patent claims adjudicated to be invalid. Opp. at 21-22.

That conclusion is a *non sequitur*. The rule prohibiting licensee recovery of pre-validity challenge royalties is premised upon the understanding that it would be unfair for a licensee, having benefited economically during the period of the patent license prior to the patent's declared invalidity, to be reimbursed funds it paid for that benefit.[4] That rationale provides *no* justification for recovering damages against Seagate for allegedly interfering with prospective licenses of invalid patents in this case. The Federal Circuit's holding to the contrary contravenes the federal patent policy encouraging challenges to invalid patents. The rule Rodime advances and that the Federal Circuit embraced — would both shield a licensor from federally protected third party efforts to discourage others from licensing patent claims believed to be invalid *and* grant it a right to recover damages for such conduct even *after* those patent claims have been declared invalid. Neither result is consistent with this Court's precedents or the policies underlying federal patent law.

CONCLUSION

In light of the foregoing, and the arguments made in the Petition for Certiorari, Seagate respectfully requests that the Petition be granted.

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[4] *See, e.g., Troxel Mfg. Co. v. Schwinn Bicycle Co.*, 465 F.2d 1253, 1260 (6th Cir. 1972).

Respectfully submitted,

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